

# **EXHIBIT 31**

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These general procedures should be in operation for effective internal control in your dealership.

1. Blank checks should not be signed.
2. All financial institutions should be notified that no cashiers checks should be issued on behalf of the dealership.
3. All negative balances in the financial statement should be investigated immediately.
4. Institute mandatory employee vacation.
5. Dual signatures should be required on checks.
6. Outside parts purchases should be monitored.
7. All mail should be opened by the dealer or designated individual.
8. Checks should be deposited in the bank timely. Also we recommend the use of the new in house bank deposit system were checks are deposited immediately in the bank daily.
9. All R&R edit reports must be reviewed daily. Cash edit report, open repairs, Open part invoices etc.
10. Cash sales clearing account should be reconciled daily.
11. Unauthorized and authorized access into the computer system should be monitored on an ongoing basis.
12. Computer passwords should be changed sporadically through the year to maintain interim control over unauthorized use of the system.
13. All journal entries made to the accounting records should be authorized by the controller and signed off as part of the month end review process.
14. Vendors should be notified that payment will not be made without a purchase order number on their invoice.
15. Make sure all payroll procedures are in place and being followed. (Time cards are being used, Over time is watched etc.)

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## DEALERSHIP INTERNAL CONTROL CHECKLIST

### PETTY CASH

(Who controls petty cash?)

Completed      Not Completed

_____	_____	Petty cash fund counted and verified to the general ledger at month end.
_____	_____	Are petty cash vouchers prepared and signed in ink?
_____	_____	Are petty cash vouchers approved by managers?
_____	_____	Are employee checks or employee loans being made out of petty cash?
_____	_____	Are petty cash vouchers supported by backup receipts or invoices?
_____	_____	Are petty cash reimbursements approved by dealer or designated individual?

### CASH

Completed      Not Completed

_____	_____	Are deposits verified daily per the bank pinnacle (online transaction history) report?
_____	_____	Are there any returned checks? If so who and how much. Who is collecting the money?
_____	_____	Are all wire payments received and paid verified daily?
_____	_____	Are credit card refunds verified by a manager and signed off? ( Is the deal dead?)

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### CONTRACTS IN TRANSIT

Completed      Not Completed

_____	_____	Is the account reviewed weekly? Are there any contracts older than five days? If so who and how much and why.
_____	_____	Are contracts being "cashed up" timely by finance institutions? Are payoffs on floor plan liabilities being made within the floor plan institutions allotted time frame?

### NOTES RECEIVABLE

Completed      Not Completed

_____	_____	Does the dealership have these types of receivables?
_____	_____	Is the proper documentation on file (executed promissory note, etc.).
_____	_____	Who authorized these notes for the dealership?
_____	_____	All intercompany accounts must be reconciled on a monthly basis.

### VEHICLE RECEIVABLES

Completed      Not Completed

_____	_____	Are the COD monies followed up immediately?
_____	_____	What is the break down per location of monies due.
_____	_____	Reviewed the collection efforts being made on overaged items.
_____	_____	Who is authorizing credit? Is all credit extended authorized?
_____	_____	Review of this account has not highlighted situations where the dealership did not have money or equivalents in house before delivery. Any monies due were authorized by the proper credit authority in the dealership. (Hold checks etc.)

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## PARTS AND SERVICE RECEIVABLES

<u>Completed</u>	<u>Not Completed</u>	
_____	_____	Review weekly the schedule and aging of accounts.
_____	_____	Is any vendor still purchasing once their receivables are over 30 days old.
_____	_____	Review list of vendors on COD list.
_____	_____	If the system has been overridden for authorizing credit, who is responsible? Who has authority to override a vendor who is flagged for non payment (COD list)?

## INVENTORIES

<u>Completed</u>	<u>Not Completed</u>	
_____	_____	Has a physical inventory been taken of new and used vehicles? ( Independent of the sales department)
_____	_____	Physical inventories have been taken by someone other than the new and used car sales managers?
_____	_____	New and used vehicle physical inventories have been timely reconciled to the general ledger.
_____	_____	All reconciling differences have been brought to the controller and appropriate manager's attention.
_____	_____	Physical inventories of miscellaneous inventories (gas, oil, grease, tires, work in process, sublet, etc.) are taken monthly.
_____	_____	The books have been adjusted properly to all physical inventories taken for the month and discussed with management.
_____	_____	Are the parts bins being counted in rotation and the variance difference checked by the parts manager and accounting office. _____

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### FACTORY RECEIVABLES

<u>Completed</u>	<u>Not Completed</u>	
_____	_____	Reviewed schedule of open receivables due from the factory. Is payment being made within factory guidelines?
_____	_____	Reviewed schedule for timely collection and unusual overaged items. Investigated all open overaged receivables.
_____	_____	Who is following up on uncollected factory monies? 1) Rebate/Incentive 2) Warranties 3) Extended Warranties 4) Holdback 5) PDI Receivable 6) Advertising Co-op 7) Special program monies

### FACTORY RESERVE RECEIVABLES

<u>Completed</u>	<u>Not Completed</u>	
_____	_____	Reviewed schedules of receivables and questioned all overaged receivables (usually greater than 30 days old).
_____	_____	The dealership calculation of the reserve is accurate and no discrepancies were noted between the amount booked and the amount paid. Any small discrepancies have been adjusted for.
_____	_____	Reviewed the reconciliation between the month end books and the institutions month end statement. All reconciling and overaged receivables were investigated.
_____	_____	Reviewed the reserve for chargebacks for the month for adequacy, (unless the books have been adjusted to the actual chargeback for the month).
_____	_____	Reviewed schedule of open receivables due from the factory. Is payment being made within factory guidelines?
_____	_____	Reviewed the chargebacks for the month and the procedures for verifying that these chargebacks are for the dealership (chargebacks should be traced to the original deal and noted).

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### WARRANTY and EXTENDED CLAIMS

Completed      Not Completed

_____	_____	Reviewed schedule listing of claims and aging.
_____	_____	Have all adjustments been made for the difference between amounts claimed and amounts allowed by the factory?
_____	_____	Reviewed old claims and the follow up procedures.
_____	_____	Reviewed the service departments submission procedures for timeliness and resubmission procedures.
_____	_____	If aged, has factory rep been contacted for collections?

### PREPAID EXPENSES

Completed      Not Completed

_____	_____	Reviewed a list of all prepaid expenses.
_____	_____	Checked appropriateness of all expenses charged to this account.
_____	_____	Reviewed calculation of all expenses being charged off over time and the standard journal entries for accuracy.

### FIXED ASSETS

Completed      Not Completed

_____	_____	Reviewed schedules of fixed asset acquisition and dispositions for the month with appropriate invoices.
_____	_____	Review accounts for inappropriate charges that should be expensed.
_____	_____	Review standards entry for depreciation expense for adequacy.
_____	_____	Fixed asset files are being maintained for all acquisitions and dispositions, and the appropriate sales or use tax has been paid.

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### EMPLOYEE RECEIVABLES AND OWNERS RECEIVABLE

Completed      Not Completed

_____	_____	Reviewed all schedule listings with appropriate authorizations for charges.
_____	_____	Reviewed terms for repayment for adherence to their initial set (payroll deduction, etc.).

### ACCOUNTS PAYABLE

Completed      Not Completed

_____	_____	Reviewed reconciliation of all vendor accounts on the month end schedule.
_____	_____	Reviewed reconciling items not cleared up from prior month. Investigated that these reconciling items were properly handled.
_____	_____	Reviewed a sample of paid invoices for proper documentation (manager's signature, purchase orders, etc.).
_____	_____	Reviewed purchase order books for recording unrecorded liabilities at month end.
_____	_____	Are all Factory Parts Accounts reconciled up to date? Any situations, (chargebacks, etc.).
_____	_____	Are all bills accrued in the correct month and expensed?

### CUSTOMERS' DEPOSITS

Completed      Not Completed

_____	_____	What is the balance of customers deposits by location?
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### NOTES PAYABLE - FLOOR PLAN

<u>Completed</u>	<u>Not Completed</u>	
_____	_____	Reviewed reconciliation of financial institutions statement with the books.
_____	_____	Investigated all reconciling items carried over from one month to the next.
_____	_____	How much equity do we have in New Vehicles and in Used Vehicles (by location).

### ACCRUED EXPENSES

<u>Completed</u>	<u>Not Completed</u>	
_____	_____	Are all in-house internal accrued accounts correct?
_____	_____	Are all advertising and estimated future bills being accrued? (Parts physical, NADA trip etc)

### SALES, PAYROLL AND OTHER TAXES

<u>Completed</u>	<u>Not Completed</u>	
_____	_____	Are all bonuses checked and accrued on the books?
_____	_____	Reviewed general ledger liabilities along with scheduled accounts for reasonableness.
_____	_____	Reviewed payments made for the month to guarantee compliance with state and federal regulations.
_____	_____	Are all monthly and quarterly tax filings up to date?
_____	_____	Is the Parts department updating the wholesale Resale certificates?

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**MISCELLANEOUS**

Completed      Not Completed

_____	_____	Any aged repair orders over 5 days old? If so, who and how much?
_____	_____	Any aged Parts Tickets 1 day or older? If so who and how much?
_____	_____	Any repaired vehicles released without payment? If so who and how much?
_____	_____	8300 Compliance. Are they being filed timely?
_____	_____	Wholesale sales. (Titles are not released until payment is received?)
_____	_____	Is someone checking Finance deals to make sure the customer is not over charged on the finance rate? (Discrimination)
_____	_____	Have all deals been turned in the office? If no get a list.
_____	_____	Are we posting deals timely? a) New b) Used c) Wholesale d) Special Finance
_____	_____	Has our computer security access been checked and is it up to date? (Passwords, who has what access to what) Mandatory password changes.
_____	_____	What third party has access to our system and bank accounts?
_____	_____	Make sure procedures are being checked and rechecked.

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MONTH END REVIEW COMPLETED \_\_\_\_\_  
Controller's Signature Date

MONTH END REVIEW COMPLETED \_\_\_\_\_  
General Mgr's Signature Date

REVIEWED WITH \_\_\_\_\_  
Dealer/Principal Signature Date

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